U. S. S E N A T E

Republican Policy Committee

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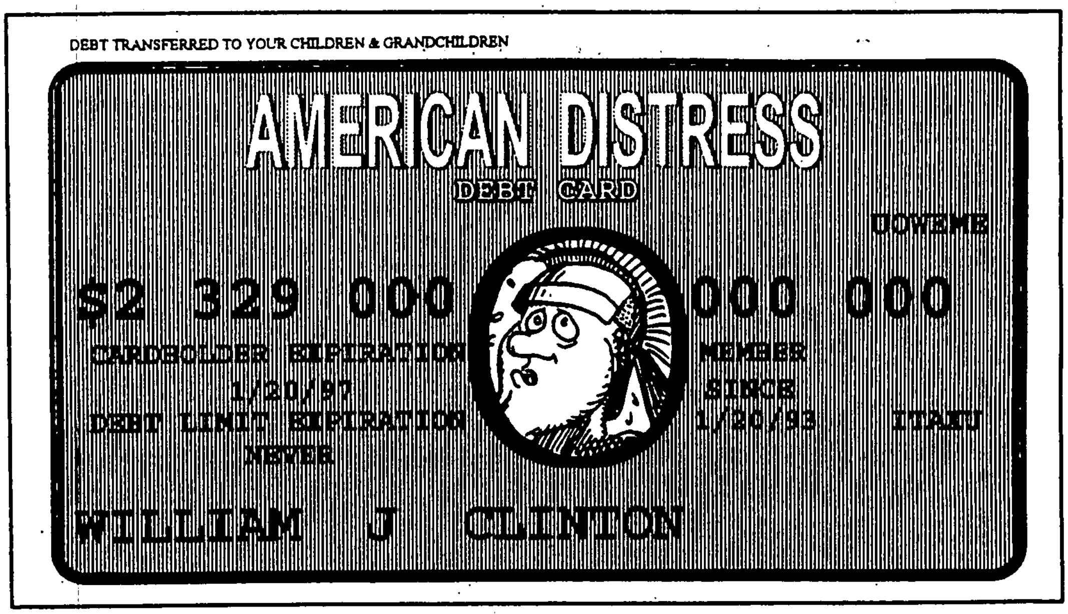
Borrow & Spend, Borrow & Spend...

Clinton's American Distress Card: Increasing the Debt Without Eliminating the Deficit

President Clinton continues to insist that Congress raise the debt limit while at the same time refusing to eliminate the deficit. Again on November 1, he reiterated this in a White House meeting with Majority Leader Dole and Speaker Gingrich. Actually, the debt limit demand has served to make an old story seem new. Since taking office, President Clinton has made no effort to reduce federal spending and has never proposed a budget that balances. In fact, the debt under the debt limit he wants raised will have increased by $2.329 trillion, 57 percent, under his planned budgets while in office.



The debt limit episode merely underscores how adamantly opposed President Clinton is to achieving balance and what he is willing to risk to continue the uncontrolled spending. Only with two overseas trips at stake has President Clinton become concerned about the nation's fiscal situation. Only last week did he become willing to even sit in the same room with Congressional leaders; regrettably, it was not the budget he wanted to discuss but increasing the debt limit. The President's fiscal policy priority is to increase the debt limit to accommodate uncontrolled spending. In contrast, Congress intends to balance the budget for real by simply slowing the rate of spending's growth.

Another Day Older and Deeper in Debt

"[Congress] should send me the debt limit bill to sign, as every Congress has done when necessary throughout American history. Just yesterday the Secretary of the Treasury once again asked Congress to remove the debt limit from the budget bill — or at the very least to extend it

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through mid January; that way we can resolve this budget impasse without hurting our economy." [President Clinton, October 28, 1995, Weekly Radio Address]

The American Distress Lead Card: He Won't Leave Home Without It

President Clinton's demand for an increased debt limit without deficit elimination is akin to a cardholder who has exceeded his credit limit. Despite repeated warnings from his account officer, only the threat that his card will be revoked has focused his attention. Still, our profligate President refuses to work out a plan to control his spending. Instead, he complains to the issuer, claiming that his future is being endangered by a failure to increase his credit limit because he wants to use it on a round-the-world trip to Asia and Europe in mid-November and early December.

It's Everywhere America Doesn't Want To Be

When President Clinton took office on January 20, 1993, the federal debt subject to limit — the cap he now wants to have unconditionally lifted — stood at $4.096 trillion. According to his own estimators at the Office of Management and Budget (OMB), that amount will increase to $6.425 trillion by FY 2000 — the last year he could be in office. That is an increase of $2.329 trillion, or 57 percent, even under his own overly optimistic economic assumptions that have been rejected by the bipartisan Congressional Budget Office (CBO). Is that where America wants to be at the turn of the century? Congress says "no."

The Card That Pays Your Children Back — In Debt

Rather than gold or platinum, President Clinton has created an entirely new issuance: the Lead Card. It's a heavy, overdrawn burden for taxpayers and future generations. President Clinton's Lead Card is truly the card that pays your children back. . . with debt. By running up debt today, we leave it for our children to pay back tomorrow. Each child born today would, over the next 18 years, be saddled with a $187,000 tax bill for just the interest on the federal debt if we let the President stay on his big-spending, big-government path.

Clinton's Chicken Little Strategy — The Sky is Falling, The Sky is Falling!

"[. . . P]erhaps most troubling of all, because they refuse to extend the debt limit, they are threatening to plunge our country into default for the first time in the entire history of the Republic. This would, of course, mean higher interest rates. . ."
[President Clinton, October 19, 1995, White House Press Briefing]

This is the same old scare-tactic story that the President has offered as his only response to every Republican plan to slow the growth of spending and to balance the budget. However, this time the President's hysteria is actually worse than Chicken Little's: at least Chicken Little had evidence of his charge (albeit just an acorn on the noggin). In contrast, not only is there no evidence for Clinton's charge, the evidence shows just the opposite:

- Interest rates have fallen since the President decided that he had nothing to offer but fear itself.

- Rates on the federal thirty-year bond have fallen from over 6.60 percent just a few weeks ago to 6.27 percent on November 3.

- This fall is directly attributable to Wall Street's optimism that Congress will follow through and balance the budget for real. **In fact, recent experience indicates that rates will only go up if we <u>don't</u> balance the budget.**

- Rates will continue to fall. Speaking November 3, 1995, about Congress' deficit elimination plan, Federal Reserve Board Governor Lawrence Lindsey stated: *"Ultimately, the whole package is probably worth about 150 basis points, **of which we've seen maybe half**"* (emphasis added).

- CBO concurs, saying: *"[T]he likely effects of balancing the budget [would result in an interest rate reduction in] — a range of from 100 to 200 basis points. A drop of that magnitude from CBO's baseline forecast would leave real long-term rates at between 1 percent and 2 percent — lower than they have been since the 1950s — and real short-term rates close to zero."*
  [Appendix Billion: "Economic and Budgetary Implications of Balancing the Budget," p. 55, in An Analysis of the President's Budgetary Proposals for Fiscal Year 1996, April 1995]

- Many economists say that the drop in interest rates would be even greater. In an October 31, 1995, Associated Press story, Martin Crutsinger wrote: *"Economists predict that the declines in interest rates would be substantial, sending the 30-year Treasury bond. . . down by as much as 2 percentage points by 2001."*

The Debate: Clinton vs. Congress

- **Clinton:** *"[Congress] should send me the debt limit bill to sign, as every Congress has done when necessary throughout American history."*
  (Clinton, October 28, 1995)

- **Congress:** It is not increasing the debt limit ***but what causes us to increase the debt limit*** that should be the issue.

- **Clinton:** Give me an unconditional debt limit increase (as demonstrated by his budgets and his debt limit demand).

- **Congress:** We will not permanently increase the debt limit until we eliminate the deficit — in seven years and with real numbers.

- **Clinton:** The problem is everywhere but in his own spending, which will increase the debt he now wants raised by 57 percent from the day he took office to the last year he could remain in office.

- **Congress:** Under our budget, we will eliminate the need to raise the debt limit altogether.

- **Clinton:** Leaving an ever-growing legacy of debt to our children — $187,000 in taxes to pay just the interest on the Federal debt over the next 18 years for children born today — is alright.

- **Congress:** Under our budget, Federal interest payments will actually drop from $233 billion in 1995 to $222 billion in 2005 according to CBO.

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